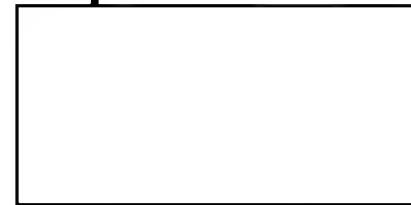


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Approved For Release 2003/10/15 : CIA-RDP79T00975A025900010001-3

25X1

[REDACTED] December 18, 1973

Central Intelligence Bulletin

CONTENTS

ARAB STATES - ISRAEL: Inter-Arab consultations under way prior to Geneva conference. (Page 1)

CAMBODIA: Government clearing operations make some progress. (Page 3)

UNITED KINGDOM: London announces new measures to cope with economic crisis. (Page 4)

EUROPEAN COMMUNITIES: More short-term credits made available for currency support operations. (Page 5)

DENMARK: Minority centrist government may be formed in next few days. (Page 6)

FOR THE RECORD: (Page 7)

25X1

Approved For Release 2003/10/15 : CIA-RDP79T00975A025900010001-3

Approved For Release 2003/10/15 : CIA-RDP79T00975A025900010001-3

C ARAB STATES - ISRAEL: A last-minute round of inter-Arab consultations seems to be under way in the wake of Secretary Kissinger's Middle East tour and in anticipation of Friday's expected opening session of the Geneva peace conference.

Damascus appears to be one of the focal points for these conversations, possibly because of Syria's reported announcement that it is delaying until today a final decision on whether to attend the peace talks.

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[redacted] According to press accounts, Fahmi then flew to Damascus yesterday where he conferred for three hours with President Asad and Khaddam before returning to Cairo. Palestine Liberation Organization Chairman Yasir Arafat also met with Asad late yesterday evening.

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Libyan Prime Minister Jalud returned to Cairo from Tripoli yesterday, less than 24 hours after having left the Egyptian capital. Jalud spent five days in Egypt last week and reportedly had two meetings with President Sadat.

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The postponement of the Geneva peace conference is being taken in stride by Egyptian media, reflecting an attitude of resignation that such a delay is inevitable. As might be expected, a Cairo radio commentator blamed the postponement on Israeli maneuvering, supported by the US, but he took a fairly relaxed approach. The Egyptians should have expected this, he said, and in any case "it will not be long" before Tel Aviv's and Washington's true intentions toward a settlement become clear. In an interview presented on French television yesterday, Foreign [redacted]

Dec 18, 1973

Central Intelligence Bulletin

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25X1

Approved For Release 2003/10/15 : CIA-RDP79T00975A025900010001-3

Approved For Release 2003/10/15 : CIA-RDP79T00975A025900010001-3

Minister Fahmi said that Egypt does not expect Israel to follow a constructive line at Geneva, but that Cairo will nevertheless go there to prove to the world once again that Israel is the peace obstructionist.

Arab military pressure on Israel will probably continue to play a significant role in the Arab strategy for obtaining concessions from Tel Aviv at the peace talks. An article in yesterday's edition of Cairo's semiofficial newspaper, Al-Ahram, stressed the need for increasing such pressure to force Israel to bear the high cost of maximum preparedness for as long as possible.

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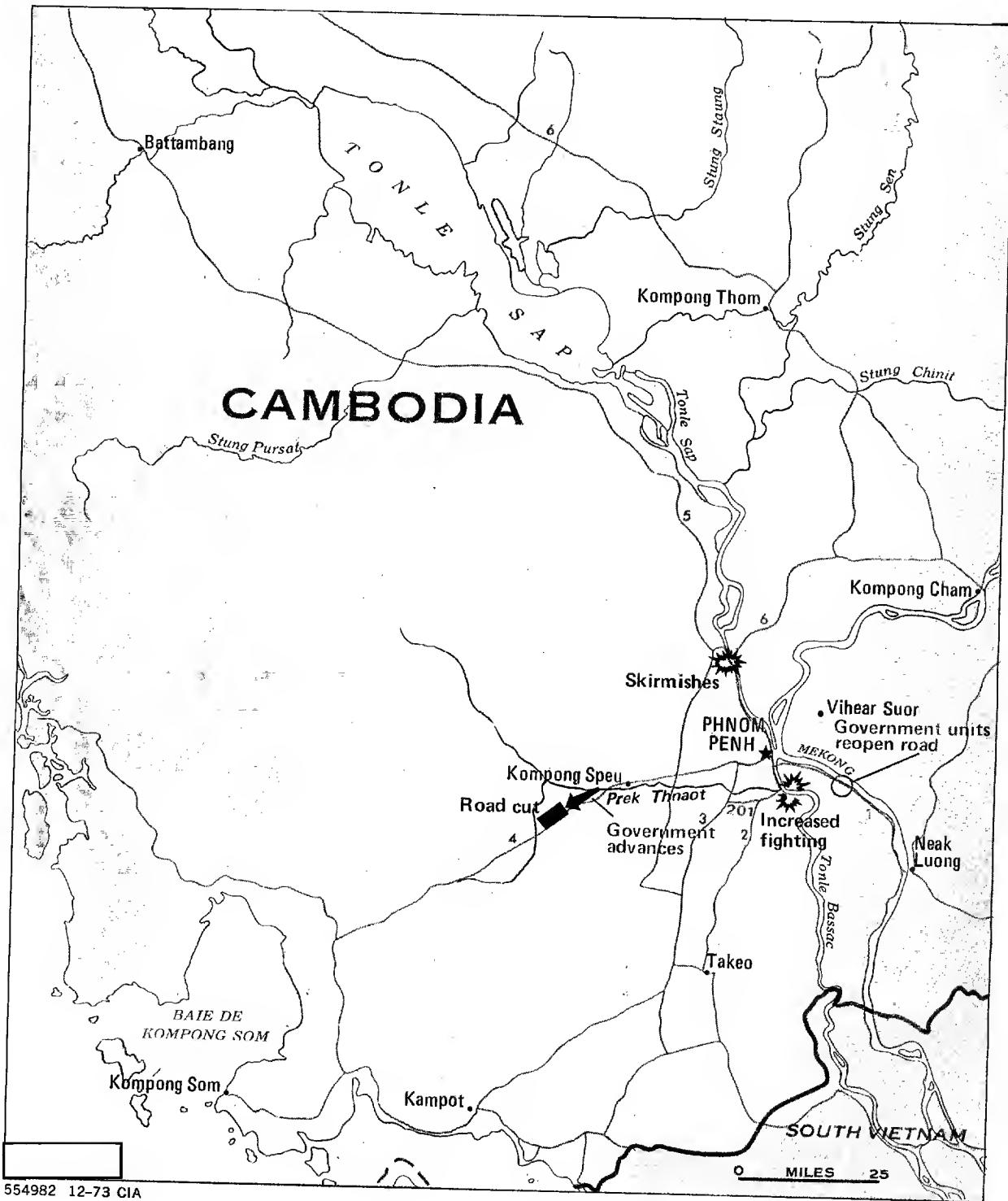
Israeli Deputy Premier Yigal Allon's expectations of the Geneva conference proceedings were spelled out in a recorded election campaign interview broadcast by Jerusalem radio on December 17. Allon said that:

- "considerable time" would be spent negotiating a separation of forces;
- the only joint session would be the opening ceremony, and then only if Syria had provided a POW list;
- Israel would hold separate subcommittee sessions with each of its neighboring states "because there are different problems with each state";
- a "long list of conditions" on which a settlement would rest must be negotiated before final boundaries can be discussed; these conditions include the nature of demilitarized zones, the status of peace-keeping forces, Israel's navigation rights, and the nature of relations among the neighboring states following a settlement.

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CAMBODIA: Government clearing operations are making some progress along several highways.

Elements of a 4,000-man Cambodian Army task force broke through Communist defenses on Route 4 over the weekend and have now regained control of several miles of highway southwest of Kompong Speu City. Government units are regrouping before trying to reopen the four miles of road still in Communist hands. Even if clearing operations are successful, several downed bridges must be repaired or by-passed before the highway can be reopened to convoy traffic.

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Scattered fighting continues along Route 5 between ten and fifteen miles north of Phnom Penh as government reinforcements attempt to dislodge several hundred Communist troops that moved into the area late last week.

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UNITED KINGDOM: Characterizing the situation as the gravest since the end of World War II, Chancellor of the Exchequer Anthony Barber yesterday announced new measures to deflate the British economy. Public expenditures in the upcoming fiscal year are to be reduced by close to \$3 billion. The cuts will be widespread, although investment in energy industries and in state housing are exempted. To limit demand over the next month or two while UK industry is on a short workweek, Barber announced much stricter controls on installment buying and on credit sales. The government also is implementing a tax surcharge affecting those people in higher income brackets, as well as a tax on land transactions to curb real estate speculation.

These measures, along with recently announced cuts in the workweek, are intended to bring demand into line with the sharply reduced level of output expected to result from Britain's energy crisis. With the domestic coal shortage and railroad engineers' slowdown compounding the effects of shortfalls in oil deliveries, the government has reversed its "go for growth" economic policy, fearing further increases in price pressures and balance-of-payments strains. Consumer prices in November rose at an annual rate of 10 percent, while the trade deficit for the year will top \$5 billion. With the Christmas holidays approaching, there is no indication of pending settlements in any of the principal industrial disputes.

EUROPEAN COMMUNITIES: In an effort to launch Stage II of the economic and monetary union, EC finance ministers agreed yesterday to double the amount of short-term credits available for currency support operations. The action increases the available line of three- to six-month credits to \$3.3 billion. Although this amount falls far short of what would be necessary to withstand a major attack on the European joint float, EC members also could, if they wished, draw on an almost unlimited supply of 30-90 day credits within the Community as well as through other international agreements.

The credit arrangement is a compromise made in lieu of a Commission proposal that EC members pool 20 percent (later scaled down to 10 percent) of their monetary reserves on the first of the year. West Germany, Belgium, and the Netherlands, which would contribute the largest shares of a reserve pool, strongly objected to the Commission's plan. Bonn also had objected to the Commission's alternate proposal to increase credit availability six-fold.

In a related action, the ministers refused to strengthen the power of the European Monetary Cooperation Fund--the institution that administers these credits. A proposal that would have required EC central bankers to consult on monetary policy actions in their role as directors of the fund was rejected.

Yesterday's actions fall far short of establishing an EC central bank. Moreover, the decision to consult on monetary policy outside community institutions demonstrates a continuing unwillingness on the part of some members to vest new power in the Community. Accordingly, EC entry on January 1 into Stage II of economic and monetary union will have more formal than substantive significance.

DENMARK: Moderate Liberal leader Poul Hartling, named formateur by the Queen last week, stands a fair chance of forming a minority centrist government in the next few days. The severe political fragmentation resulting from the elections on December 4, however, will require extensive interparty negotiations to form even a weak, minority government.

Hartling, who held the post of foreign minister in the non-Socialist coalition from 1968 to 1971, reportedly has the support of the Center Democrats and the Christian People's parties--both of which were beneficiaries of the anti-establishment mood of the Danish electorate in the latest elections. Furthermore, his candidacy for formateur was favored by the Radical Liberals and the Conservatives.

The present situation might facilitate formation of a minority government composed of either the two liberal parties or the Moderate Liberals alone. Because no non-Socialist government wants to be dependent upon the votes of Mogens Glistrup's extreme rightist Progressive Party, Hartling is trying to work out an incomes policy with the Social Democrats in order to win their support as well.

If such a minority centrist government is formed, it would probably hope to win the support of the right on some issues and of the left on others. A similar arrangement seems to be working for Norway's minority Labor government.

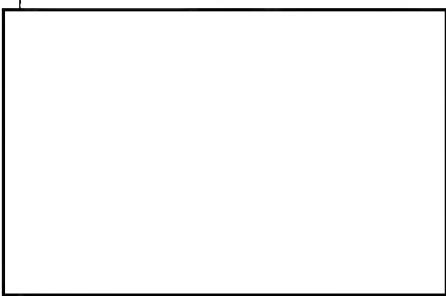
FOR THE RECORD*

Sudan: The pre-trial inquiry into charges against the Palestinian terrorists accused of murdering the US ambassador and two other diplomats in the Saudi Arabian Embassy last March has been adjourned for at least three weeks. The presiding magistrate recessed the hearings to allow the defense to appeal his ruling that Sudan has jurisdiction in the case as well as his decision on a procedural issue.

**This item was prepared by CIA without consultation with the Departments of State and Defense.*

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